



# *The Insider*

[www.senate.mi.gov/switalski](http://www.senate.mi.gov/switalski)

## **Inside State Politics with State Senator Mickey Switalski Senate District 10**

**October 28, 2005**

Welcome to the electronic version of *The Insider*. I would like to take the opportunity to thank you for your support and for giving me an opportunity to represent you in the Michigan Senate. It is my sincere hope that this bi-weekly e-newsletter will keep you informed of the happenings in Lansing while staying true to the traditional style of *The Insider*. If you would like to contact me, please feel free to e-mail me at [senmswitalski@senate.michigan.gov](mailto:senmswitalski@senate.michigan.gov) or call me at my Roseville or Lansing office. You can also meet me in person during my constituent hours, coming to a library near you. Call my office and make an appointment or just walk in. See schedule for details.

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### **Mickey's Blog: Are Tax Cuts and Spending Limits Fiscally Responsible?**

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On October 25, the Michigan Senate passed, mostly on partisan lines, a package of bills that would not only cut the Single Business Tax (SBT) but also add a new element to the debate over tax restructuring and stimulating our state's economy.

The bills (Senate Bills 633 and 634, House Bills 4972, 4980, 5096, 5097, 5098, 5106, 5107, 5108 and 5095) would cut the SBT tax rate from the current 1.9 percent to 1.84 percent, provide an industrial personal property tax credit, provide a tax amnesty, and change the apportionment formula of the SBT to base it solely on sales rather than including payroll and employment.

In addition, the package contained a provision that would limit the growth of tax revenue to the rate of inflation plus one percent, with the first \$50 million in growth going towards business tax credits and anything after that to be split between additional business tax cuts and the state's rain day fund.

The bills now go to the House for further consideration. I had some particular misgivings about the package, especially with the provision that would limit revenue growth. I spoke out on this particular concern during debate in the Senate and I would like to enclose my comments below. I think it provides an interesting perspective and shows that there is no simple solution to improving our economy. Let me know what you think and I will publish some of your e-mails in the next edition of the *Insider E-Newsletter*.

"There's a great book out and you may have seen it. It's called *The Price of Government*. It talks about a lot of things, but it starts out with an interesting thesis. The authors offer an insight into the cost of government and how to measure what people are willing to pay. They say that the cost of government fluctuates over time and that it rises and falls at intervals from a main average-kind of like Adam's Smith's "invisible hand"-it's a self-correcting mechanism. When government gets too costly, taxpayers get mad. They're unwilling to pay too much beyond that main average. Government responds by cutting

back. When spending gets too low, people start objecting to the lack of services. They demand better services and are willing to pay for them, and government spending goes back toward the mean.

This is an important insight. How does it apply to Michigan today? It so happens that the authors of this book appeared in front of the Appropriations Committee earlier this year. I asked them where they thought Michigan was in the crest and trough cycle. They said that we were in the trough. Senate Fiscal will attest to the fact that we are in the bottom of the trough. Is this the time to set the cap on state revenues? Oh, I'm sorry, there already is a cap on state revenues. It's in our Constitution and we are \$5 billion below that cap. We have never been further below that cap. We are indeed at a historic trough in terms of state revenue.

Is this the time to set up a cap on state revenue? I'm glad you asked that question because a similar proposal was reviewed in July by the Senate Appropriations Committee. I must report, in all honesty, that it got a very cool reception. In fact, the chair of Appropriations was particularly eloquent in her analysis of the shortcoming of the idea of a cap that takes as its baseline a historic trough.

What is the vision behind this proposal? It is an empty vision. It is a vision that says now that we have starved state revenue into cardiac arrest; let's drag it into the bathroom and choke it to death. That is not a positive vision for the state of Michigan. When we had money, we used to run an efficient state government. We paid for capital improvements through self-financing when it made sense. Now we sell our buildings, lease the space back, and pay a premium for the privilege. We used to earn on our rainy-day fund. Now we pay interest on money we borrowed to make ends almost meet. We securitize our tobacco settlement and mortgage tomorrow. What would suggest that now is the appropriate time to limit state revenues? We've emptied state government of its rainy-day fund. We've emptied local governments of their fund balances. We've emptied school districts of their unencumbered reserves, and we have emptied revenue sharing to a historic low, such that nearly one thousand of the state's 1,242 townships now to get no, zero statutory revenue sharing. We have emptied revenue sharing to the point where none, zero of Michigan's 83 counties have gotten a revenue sharing appropriation in the last two years, and we have an increasing number of cities in receivership. We have gone from a dream of full funding of revenue sharing to a nightmare of empty funding of revenue sharing. That is the vision of this package of bills.

What about education? The state now provides 16 percent of the University of Michigan's funding. The state contribution to universities now averages about a third of the cost of an education. Community colleges don't even get that. They have historically relied on a three-legged stool for funding, combining state appropriation, local millage, and tuition. That stool is now two legs straddling a tightrope. Is this the vision that will prepare Michigan to compete in the new economy?

Apologists for this plan assert that it won't affect K-12 education. That is as true as saying that the Lottery will fix the funding problems for schools. Yes, it is true that the lottery fund goes to schools. But it is also true that the state reduced its General Fund contribution dollar-for-dollar to the School Aid Fund. So yes, it is true that the single business tax cuts affect the General Fund and not the School Aid Fund. That ignores the larger truth that the General Fund used to contribute over \$400 million to the School Aid Fund. That contribution is down to virtually zero now because the General Fund is perpetually broke. We have never replaced the \$400 million we cut. In fact, we keep shifting new responsibilities from the General Fund to the School Aid Fund, increasing the burden on the School Aid Fund. Passing this plan will mean the School Aid Fund will never recover to its median level. Is that a vision for Michigan's future?

What about the state of corrections? We are experiencing severe jail overcrowding in Macomb and Oakland counties. Hundreds of prisoners are gaining early releases because counties, who got zero revenue sharing dollars appropriated to them in the last two budgets, don't have the resources to house

their own prisoners. We have the unseemly spectacle of the state and its counties attempting to stick one another with each other's prisoners. We cut State Police posts and arson inspectors, and we are at a historic low for trooper strength. Does this represent our vision of what public safety should be in Michigan?

How about public health? We cut vision and hearing screening for children. We've cut funding to hospitals. Is this a vision for a healthy Michigan? It is not my vision.

I will vote "no" on House Bill No. 5108 and the vision of Michigan it represents."

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### **Mickey's TV Insider Show**

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Check out my TV Insider Show coming to a television station near you. Watch me interview local guests about politics, life, issues and concerns to our district.

#### **Sterling Heights**

Every Saturday and Sunday at 12:30 p.m.  
(Comcast Channel 5/WOW Channel 10)

#### **Utica**

Every Wednesday at 9 a.m.  
(Comcast Channel 5/WOW Channel 10)

#### **Clinton Township**

Last week of every month- Sat thru Thurs  
(Comcast Channel 5/WOW Channel 10)

#### **Roseville**

Various Times  
(Comcast Channel 18)

\*Please note that Sterling Heights/Utica/Clinton Township will show the TV Insider Show on Comcast Channel 5 and Wide Open West Channel 10. Clinton Township will air the TV Insider Show at various times during the last week of every month. Roseville can see the TV Insider Show on Comcast Channel 18.

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### **Coffee Hours**

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\*Please note that since the District Office is in Roseville, I do not have set coffee hours in Roseville. However, I encourage you to visit the Roseville office. We even have a coffee pot. Everyone is welcome to attend the coffee hours and discuss their issues and concerns.

**November 7**  
**7-9 p.m.**

Location: Sterling Heights Public Library  
(40255 Dodge Park Road)  
Sterling Heights

**Future Coffee Hours**  
To Be Announced

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## Contact My Office

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**Website:** <http://www.senate.mi.gov/switalski>

**Email:** [senmswitalski@senate.michigan.gov](mailto:senmswitalski@senate.michigan.gov)

### Lansing Office

Senator Mickey Switalski  
Senate District 10  
410 Farnum  
PO Box 30036  
Lansing, Michigan 48909

(866)303-0110 toll free  
(517)373-7315  
Fax-(517)373-3126

### District Office

28311 Utica Road  
Roseville, MI 48066

Monday through Friday  
9:00 A.M. to 5:00 P.M.

(586)774-2430  
Fax-(586)774-0012